

Management's Discussion and Analysis

This section of Waukesha County's comprehensive annual financial report presents a discussion and analysis of the County's financial performance during the fiscal year ended December 31, 2005. Please read it in conjunction with the transmittal letter at the front of this report and the County's basic financial statements following this section.

FINANCIAL HIGHLIGHTS

The assets of the County exceeded the liabilities at the close of 2005 by \$362.0 million (*net assets*). Of this amount, \$100.0 million (*unrestricted net assets*) may be used to meet ongoing obligations to citizens and creditors, \$12.7 million is restricted for specific purposes (*restricted net assets*), and \$249.3 million is invested in capital assets, net of related debt.

The government's total net assets increased by \$13.5 million. Governmental activities increased the County's net assets by \$15.4 million. This increase was partially offset by a decrease of \$1.9 million in business type activities net assets. The decrease in business-type activities is mainly due to the reclassification of the exposition center from an enterprise fund to a general government operation.

On December 31, 2005, the County's governmental funds reported combined fund balances of \$85.1 million, an increase of \$800,000 from 2004. Approximately \$31.1 million, or 37% of the combined fund balance, is unreserved and undesignated.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements are designed to provide readers with a broad overview of the County's financial statements, in a manner similar to a private-sector business.

- The *statement of net assets* presents information of all County assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.
- The *statement of activities* presents information showing how net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

Both of these government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the County include justice and law enforcement; health and human services; environment, parks, and education; public works, and general government. The business type activities of the County include radio services, golf courses, ice arenas, exposition center, materials recovery facility, and airport.

The government-wide financial statements include not only Waukesha County itself (known as the *primary government*) but also a legally separate Housing Authority for which Waukesha County is accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 28-29 of this report.

Fund financial statements are groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other state and local governments, uses fund accounting to ensure and demonstrate finance-related legal compliance. All of the funds of the County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

- *Governmental funds* are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a county's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By so doing, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The County maintains 23 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the General, Human Services, Long Term Care, and Debt Service funds, all of which are considered to be major funds. Data from the other 19 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The basic *governmental fund* financial statements can be found on pages 30-33 of this report.

- *Proprietary funds* are maintained two ways. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The County uses enterprise funds to account for the airport, radio services, golf courses, ice arenas, and materials recovery facility. The County also used an enterprise fund to account for the exposition center until 2005, when the exposition center became part of the general fund. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the County's various functions. The County uses internal service funds to account for vehicle/equipment replacement, central fleet maintenance, records management, communications, risk management/self-insurance, collections, and end user technology. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail. The Airport is the only operation considered to be a major fund of the County. The County's seven internal service funds are combined into a single aggregated presentation in the proprietary funds financial statements. Individual fund data for the internal service funds is provided in the form of *combining statements* elsewhere in this report.

The *proprietary funds* financial statements can be found on pages 34-37 of this report.

Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found on pages 38-76 of this report.

Required Supplementary Information is presented for the budgetary schedules of the general fund and major special revenue funds.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. For the County, assets exceed liabilities by \$362.0 million at the close of the most recent fiscal year.

Waukesha County Net Assets (in \$000's)

	Governmental activities		Business-type activities		Total	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$ 227,177	\$ 231,288	\$ 14,994	\$ 13,823	\$ 242,171	\$ 245,111
Capital assets	291,455	267,793	35,022	38,036	326,477	305,829
Total assets	518,632	499,081	50,016	51,859	568,648	550,940
Current and other liabilities	123,316	125,796	1,372	1,361	124,688	127,157
Long-term liabilities	81,991	75,237	-	-	81,991	75,237
Total liabilities	205,307	201,033	1,372	1,361	206,679	202,394
Net assets:						
Invested in capital assets, net of related debt	214,309	197,291	35,022	38,036	249,331	235,327
Restricted net assets	12,653	10,865	-	-	12,653	10,865
Unrestricted net assets	86,363	89,893	13,622	12,462	99,985	102,355
Total net assets	\$ 313,325	\$ 298,049	\$ 48,644	\$ 50,498	\$ 361,969	\$ 348,547

The largest portion of the County's net assets (69%) reflects its investment in capital assets (e.g. land and easements, structures and improvements, infrastructure, and equipment, less any related debt used to acquire those assets that is still outstanding). The County uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Unrestricted net assets comprise 28% of the County's net assets. These assets may be used to meet the County's ongoing obligations to citizens and creditors.

The remaining balance of the County's net assets, 3%, represents resources that are subject to external restrictions (grant or trust terms, laws or regulations of other governments, etc) on how they may be used.

At the end of the current fiscal year, the County reported positive balances in all three categories of net assets, both for the County as a whole, as well as for its separate governmental activities. The same situation held true for the prior fiscal year.

As shown on the following table, the County's net asset increased by \$13.5 million during the current year. This results from total 2005 revenues of \$213.0 million and expenses of \$199.5 million. Overall revenues were up \$11.7 million from the prior year, while expenses increased by \$7.0 million.

Waukesha County
Changes in Net Assets
(in \$000's)

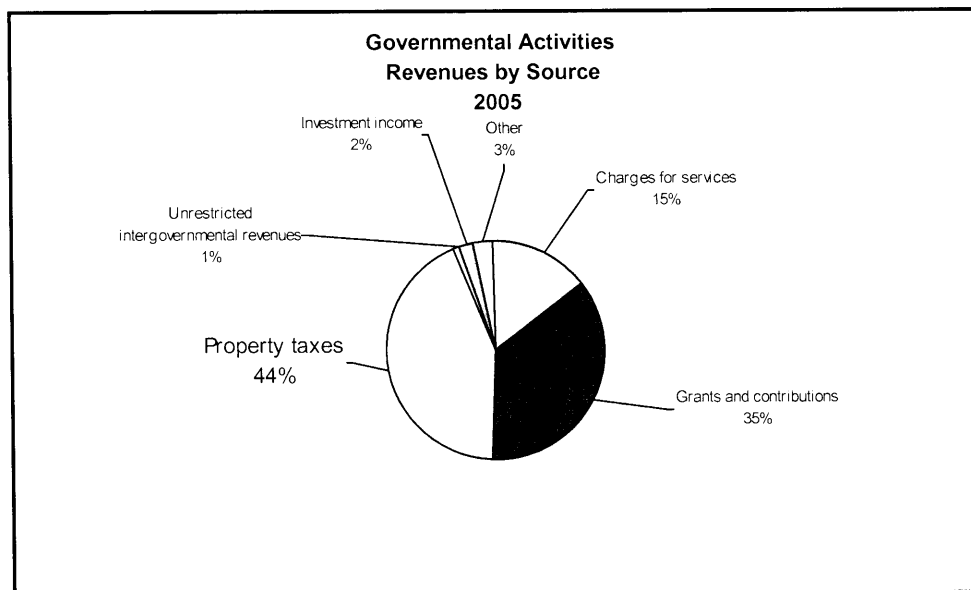
	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program revenues:						
Charges for services	\$ 30,702	\$ 28,556	\$ 6,432	\$ 6,766	\$ 37,134	\$ 35,322
Operating grants and contributions	68,050	66,631	1,603	1,073	69,653	67,704
Capital grants and contributions	3,586	2,397	434	-	4,020	2,397
General revenues:						
Property taxes	89,357	86,529	201	361	89,558	86,890
Intergovernmental revenues	1,859	2,050	-	-	1,859	2,050
Investment earnings	4,152	4,066	204	366	4,356	4,432
Miscellaneous	5,975	2,176	106	27	6,081	2,203
Gains (losses) on disposal/sale of capital assets	338	301	-	-	338	301
Total revenues	204,019	192,706	8,980	8,593	212,999	201,299
Expenses:						
Justice and law enforcement	43,594	39,049	-	-	43,594	39,049
Health and human services	87,664	85,807	-	-	87,664	85,807
Environment, parks and education	18,152	15,262	-	-	18,152	15,262
Public works	25,328	22,405	-	-	25,328	22,405
General government	12,908	17,733	-	-	12,908	17,733
Interest expense	3,096	3,107	-	-	3,096	3,107
Radio services	-	-	762	721	762	721
Golf courses	-	-	3,149	3,157	3,149	3,157
Ice arenas	-	-	1,133	1,067	1,133	1,067
Exposition center	-	-	-	795	-	795
Materials recovery facility	-	-	1,854	1,685	1,854	1,685
Airport	-	-	1,855	1,662	1,855	1,662
Total Expenses	190,742	183,363	8,753	9,087	199,495	192,450
Increase (decrease) in net assets before transfers	13,277	9,343	227	(494)	13,504	8,849
Transfers	2,081	350	(2,081)	(350)	-	-
Increase (decrease) in net assets	15,358	9,693	(1,854)	(844)	13,504	8,849
Net assets beginning of year as restated	297,967	288,356	50,498	51,342	348,465	339,698
Net assets end of year	\$ 313,325	\$ 298,049	\$ 48,644	\$ 50,498	\$ 361,969	\$ 348,547

Governmental Activities

Governmental activities increased the County's net assets by \$13.3 million before transfers.

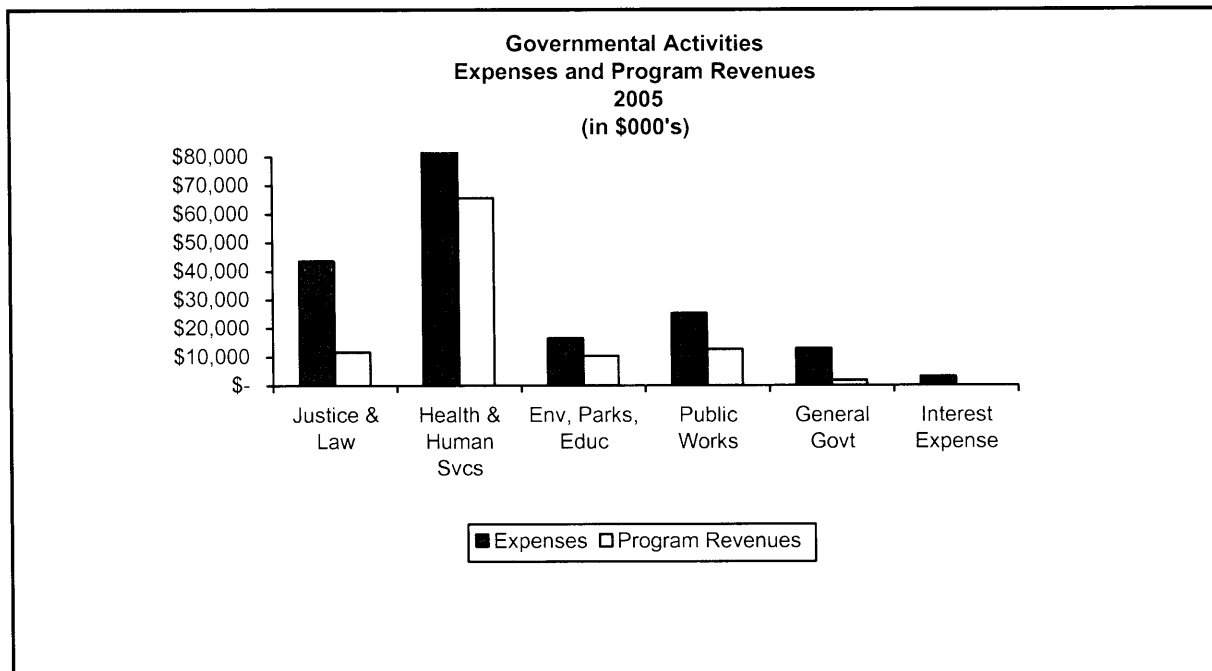
Revenues for the County's governmental activities totaled \$204.0 million. While this was an increase of \$11.3 million from 2004, there was no change in the percentage distribution of revenues by source. Property taxes in both years accounted for 44% of the total revenue, followed by operating grants and contributions. Key elements of revenue increases from 2004 are as follows:

- Miscellaneous revenues increased by \$3.8 million from 2004. Most of this is due to the County's decision to decrease its health insurance reserves by \$3.1 million, which increased revenues by the same amount.
- Property taxes increased \$2.8 million, due in part to the opening of the new jail in October, 2005 which required \$1.2 million of additional tax levy funding in Sheriff and Public Works.



The overall increase in expenses for governmental activities was \$7.3 million, or 4%. Justice and law enforcement showed the largest increase. This was the first year for the newly formed Department of Emergency Preparedness, which combined operations previously reflected in general government and public works. The new jail also opened in October, 2005.

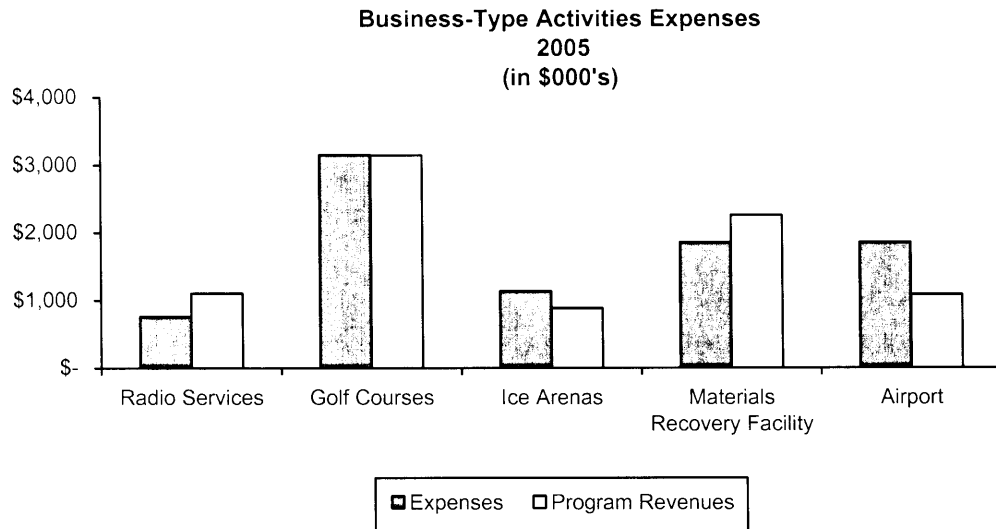
Governmental activities expenses exceeded program revenue by \$88.4 million. The following graph illustrates the expenses and program revenues for each area. When general revenues (which include such items as property tax, investment earnings, and grants and contributions not restricted to specific programs) are included, total revenues exceed expenses by \$13.3 million prior to transfers in of \$2.1 million, mainly for the reclassification of the exposition center from an enterprise to a general governmental operation.



Business-Type Activities

Business-type activities (before transfers) increased the County's net assets by a modest \$227,000. Radio Services, the Golf Courses, and the Materials Recovery Facility all made a profit. The Airport and Ice Arenas had losses. Including transfers, business type activities showed an overall net decrease in net assets of \$1.9 million. Key factors in these results include the following:

- The Exposition Center was changed from an enterprise fund operation to a general fund operation, resulting in a transfer out of \$2.0 million in net assets. The shift was made to recognize the Expo Center more as a community development asset than a self-sustaining business operation. The facility's revenues cover most direct operating expenses, but are not sufficient to cover depreciation and indirect costs.
- Operating grants and contracts increased \$530,000 from the prior year, due mainly to a one-time Homeland Security in Radio Services grant for \$395,400 to upgrade the existing countywide public safety mobile data system infrastructure.
- Capital grants and contributions of \$434,000 were also received in 2005. In Radio Services, a one time payment of \$136,400 for infrastructure costs was received from a community which joined the trunked radio system in 2005. The Airport had capital contributions of \$312,000.
- A transfer from the Golf Course fund to governmental funds for parkland acquisitions decreased net assets by \$75,000.



FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The general government functions are contained in the General, Special Revenue, Debt Service, and Capital Project Funds. The focus of the County's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At December 31, 2005, the County's governmental funds reported combined fund balances of \$85.1 million, an increase of \$0.8 million in comparison with the prior year. As the table below indicates, there was a shift of over \$3 million between reserved and designated from 2004 to 2005. Reserved for sick leave payout and reserved for subsequent year's expenditures are now shown as designated since these are government imposed restrictions. Also, there is a newly designated amount of \$2.6 million in the general fund for health insurance reserves.

By fund type, the General fund decreased \$491,000. This results from planned use of fund balance for capital and debt retirement of \$3.5 million offset by overall favorable revenue/expenditure variances from budget. Special Revenue funds increased \$102,000, most of which is reserved or designated. The Debt Service and Capital projects fund balances increased by \$15,000 and \$1.2 million respectively; the entire balance in both of these fund types is reserved for existing capital projects and related debt retirement purposes.

Waukesha County
Changes in Fund Balance
(in \$000's)

	2005	2004	Change
Reserved:			
General	\$ 11,163	\$ 16,200	\$ (5,037)
Non-Major Special Revenue	4,455	5,393	(938)
Debt Service	3,018	3,003	15
Capital Projects	10,828	8,855	1,973
Subtotal Reserved	<u>\$ 29,464</u>	<u>\$ 33,451</u>	<u>\$ (3,987)</u>
Designated			
General	\$ 10,335	\$ 7,190	\$ 3,145
Human Services	386	493	(107)
Long Term Care	200	224	(24)
Non-Major Special Revenue	3,406	2,325	1,081
Capital Projects	10,139	10,933	(794)
Subtotal Designated	<u>\$ 24,466</u>	<u>\$ 21,165</u>	<u>\$ 3,301</u>
Undesignated			
General	\$ 28,361	\$ 26,960	\$ 1,401
Human Services	622	760	(138)
Long Term Care	1,818	1,804	14
Non-Major Special Revenue	374	160	214
Subtotal Undesignated	<u>\$ 31,175</u>	<u>\$ 29,684</u>	<u>\$ 1,491</u>
Total			
General	\$ 49,859	\$ 50,350	\$ (491)
Human Services	1,008	1,253	(245)
Long Term Care	2,018	2,028	(10)
Non-Major Special Revenue	8,235	7,878	357
Debt Service	3,018	3,003	15
Capital Projects	20,967	19,788	1,179
Total Fund Balance	<u><u>\$ 85,105</u></u>	<u><u>\$ 84,300</u></u>	<u><u>\$ 805</u></u>

Working Capital.

Approximately 37% of the combined fund balance, \$31.1 million, constitutes unreserved and undesignated fund balance, which is available to meet the County's current and future needs. The undesignated portion will provide working capital for about eight weeks of operations based on the 2006 adopted budget.

The County has a policy that the ratio of undesignated general and special revenue fund balance to total operating expenditures shall be maintained above 11%. As of January 1, 2006 it is at 15.9%. This level is very near the County's managed plan reduction goal of 15%. County policy limits use of fund balance to one-time or short term costs which in most cases reduce future operating budget costs.

The schedules which follow present a summary of general, special revenue, capital, and debt service fund revenues and expenditures for the fiscal year ended December 31, 2005 and the amount and percentage of increases and decreases in relation to the prior year.

Waukesha County
Revenues by Source
Governmental Funds
(in \$000's)

	2005	Percent of	Increase (Decrease)	
			from 2004	
	<u>Amount</u>	<u>Total</u>	<u>Amount</u>	<u>Percent</u>
Taxes	\$87,143	42%	\$3,800	5%
Intergovernmental revenues	76,558	37%	3,807	5%
Fines and licenses	3,631	2%	(182)	-5%
Charges for services	18,579	9%	982	6%
Interdepartmental revenues	3,687	2%	65	2%
Investment earnings	3,718	2%	115	3%
Miscellaneous revenues	<u>13,476</u>	6%	<u>3,512</u>	35%
Total Revenues	\$206,792	100%	\$12,099	6%

General governmental revenues increased \$12.1 million in 2005. Key factors concerning the changes in revenues were previously addressed in the discussion of the County's governmental activities section.

Waukesha County
Expenditures by Function
Governmental Funds
(in \$000's)

	2005	Percent of	Increase (Decrease)	
			from 2004	
	<u>Amount</u>	<u>Total</u>	<u>Amount</u>	<u>Percent</u>
Justice and Law Enforcement	\$44,281	20%	\$4,112	10%
Health and Human Services	87,717	40%	2,242	3%
Environment, Parks & Education	18,174	8%	1,057	6%
Public Works	18,614	8%	1,564	9%
General Government	11,994	5%	(1,687)	-12%
Capital Project Funds	27,978	13%	(12,838)	-31%
Debt Service:				
Principal Retirement	8,715	4%	(3,485)	-29%
Interest and Fiscal Charges	<u>3,002</u>	2%	<u>(40)</u>	-1%
Total Expenditures	\$220,475	100%	(\$9,075)	-4%

Governmental funds' expenditures decreased \$9.1 million in 2005. Capital project funds showed the largest decrease. The Justice Facility capital project neared completion; 2005 expenditures of \$10.7 million were \$6.7 million less than the year before. There was also a large highway project (County Trunk Highway L in the city of Muskego) which was winding down in 2005, with \$0.7 million in expenditures compared to \$6.1 million the prior year.

Debt service expenditures decreased \$3.5 million from 2004. The early retirement of the County's 1997 debt issue in 2004 accounts for \$2.8 million of the decrease.

Proprietary funds. Waukesha County's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Total growth in net assets for the Radio Services and Materials Recovery Facility Funds was almost \$0.5 million each, while the Airport fund decreased about \$0.5

million in net assets. Factors concerning the finances of these funds have already been addressed in the discussion of the County's business-type activities.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget resulted in a \$3.4 million increase in appropriations. Carryovers and open purchase orders accounted for half (\$1.7 million) of the increase. This amount was budgeted from available fund balance. The remaining \$1.7 million increase is mainly attributable to grants, including:

- \$800,000 Homeland Security Grant for the department of Emergency Preparedness
- \$291,000 Comprehensive Planning Grant in the Departments of Parks and Land Use and UW-Extension.
- \$231,000 Sheriff Department grants and seized fund allocations
- \$73,000 Public Health grants
- Non-grant appropriation of \$320,000 in general government to fund employee retirement sick leave payouts. This was funded from fund balance designated for this purpose.

Capital Assets

The County's investment in capital assets for its governmental and business-type activities at December 31, 2005, amounted to \$326.5 million (net of accumulated depreciation), an increase of \$20.6 million over 2004. This investment in capital assets includes land and easements, infrastructure, structures and improvements, equipment, and construction in progress.

The County's infrastructure assets are recorded at estimated historical cost in the government-wide financial statements. The County has elected to use the depreciation method of reporting capital assets.

Waukesha County's Capital Assets

(net of depreciation)

(in 000's)

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Governmental Activities						
Land	\$ 34,050	\$ 32,975	\$ 10,289	\$ 10,289	\$ 44,339	\$ 43,264
Buildings	68,096	68,285	10,316	12,370	78,412	80,655
Land improvements	5,322	5,370	10,610	11,938	15,932	17,308
Machinery and equipment	9,428	8,728	3,238	3,419	12,666	12,147
Vehicles	5,097	4,647	-	-	5,097	4,647
Infrastructure	90,739	88,242	-	-	90,739	88,242
Construction in Progress	78,723	59,546	569	21	79,292	59,567
Total	\$ 291,455	\$ 267,793	\$ 35,022	\$ 38,036	\$ 326,477	\$ 305,829

Further details of the County's capital assets can be found in Note 8 of the notes to the financial statements, page 59.

Long Term Debt

At December 31, 2005, the County had \$77,150,000 of general obligation promissory notes outstanding. The County maintains an Aaa rating from Moody's Investors Service and AAA from Fitch Investors Service on general obligation note issues. Under current state statutes, the County's general obligation note issuances are subject to a legal limitation based on five percent of the equalized value of taxable property in the County. As of December 31, 2005 the County's total amount applicable to debt margin (outstanding notes less debt service fund balance) is \$74.1 million, which was well below the legal limit of \$2.2 billion. The net debt per capita equaled \$205 at year-end.

During the year, the County issued \$14.4 million of general obligation promissory notes, dated May 1, 2005, to finance part of the cost of capital improvements within the County.

Further details of the County's long-term debt activity can be found in Note 10 of the notes to the financial statements, page 63.

Economic Factors and the 2006 Budget and Rates

Enrolled 2005 Wisconsin Act 25 (2005-2007 State Budget) establishes local levy limits for the 2006 and 2007 budgets. The law prohibits a county from increasing its total levy by more than the percentage change in the county's January 1 equalized value growth due to new construction, less improvements removed, between the previous year and the current year. Debt service is exempt from the levy limit.

The 2006 budget meets the tax levy limit as adopted in the Wisconsin 2005-2007 State Budget, and the levy limit as submitted by the State Legislature prior to the Governor's partial veto modification.

Full year operation of the new jail addition will increase 2006 levy funding by \$1.4 million. The expansion eliminates inmate overcrowding at peak times by adding 278 beds. It also increases staffing over a 2-year period by 37.5 positions between the Sheriff's and the Public Works departments.

State mandated services continue to be a significant burden for the County, as are utility and fuel cost increases and rising healthcare costs

All of these factors were considered in preparing Waukesha County's budget for the 2006 fiscal year.

Request for Information

This financial report is designed to provide a general overview of the County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Department of Administration, Accounting Services Division, 1320 Pewaukee Road, Waukesha, WI 53188.

Questions concerning any of the information provided in this report regarding the discretely presented component, Waukesha County Housing Authority, or requests for additional information should be addressed to the Waukesha County Housing Authority, 120 Corrina Blvd, Waukesha, WI 53186.

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